

Message Text

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INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

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EB-07 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

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FRB-03 FEA-01 EA-06 IO-10 NEA-10 OPIC-03 LAB-04

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TO SECSTATE WASH DC IMMEDIATE 7981

C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 18439

E.O. 11652: GDS

TAGS: ENRG, OECD

SUBJECT: IEA: UK COMMENTS ON SECRETARIAT'S PRODUCER/
CONSUMER PAPER

BEGIN TEXT:

1. MEMBER GOVERNMENTS WERE INVITED TO SUBMIT THEIR COMMENTS OR SUGGESTIONS ON DOCUMENT IEA/GB(75)44 WHICH DEALS WITH THE SUBSTANTIVE ISSUES IN THE PRODUCER/ CONSUMER DIALOGUE.
2. THE DRAFT PAPER HAS BEEN CLOSELY STUDIED BY MY AUTHORITIES THE RESULT OF WHICH IS THAT WE HAVE A NUMBER OF COMMENTS BOTH OF A SUBSTANTIVE AND DRAFTING NATURE. I SET THESE OUT BELOW FOLLOWING THE PARAGRAPH ORDER OF THE DOCUMENT AS AT PRESENT DRAFTED AND NOT IN ANY INDICATIVE ORDER OF THE RELATIVE IMPORTANCE WHICH WE ATTACH TO THE INDIVIDUAL COMMENTS.
3. ON PAGE 7, PARAGRAPH A3 IT STATES THAT "THE OIL PRICE INCREASES DIRECTLY CONTRIBUTED ONE OR TWO PERCENTAGE POINTS TO WORLDWIDE COST INFLATION". THIS IS CONFIDENTIAL
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NOT A VERY SIGNIFICANT STATISTIC, AND IT IS NOT CLEAR HOW INFLATION HAS BEEN MEASURED IN THIS CONTEXT. AN

ALTERNATIVE WAY OF LOOKING AT THIS IS THAT BEFORE THE 1973 INCREASES, OIL CONSUMPTION AS A PROPORTION OF GNP WAS AROUND 2 PERCENT. WITH THE QUADRUPLING OF OIL PRICES THE PROPORTION HAS RISEN TO 8 PERCENT - GIVEN THAT

CONSUMPTION LEVELS HAVE REMAINED ROUGHLY STATIC. THIS IS AN INCREASE OF 6 PERCENTAGE POINTS, A FIGURE WITH RATHER MORE IMPACT THAN 2 PERCENTAGE POINTS, AND FOR SOME IEA MEMBER COUNTRIES, ONE THAT IS MUCH NEARER THE TRUTH.

4. ON PAGE 8, PARAGRAPH 6, BEFORE THE FIRST WORDS OF THE FIRST SENTENCE INSERT "FOR CERTAIN OIL PRODUCERS WHOSE PRICES HAVE MOVED OUT OF LINE WITH MARKER PRICES, UNCERTAINTIES IN THE OIL MARKET...". WE SHOULD ALSO LIKE TO SEE DELETED THE FINAL SENTENCE IN THIS PARAGRAPH SINCE IT IS NOT CLEAR WHAT IS MEANT BY "CORRECTIVE MEASURES". IN ANY EVENT, IT SEEMS UNREASONABLE THAT THE CONSUMERS SHOULD BAIL OUT PRODUCERS WHO ARE IN DIFFICULTY BECAUSE THEY HAVE OVER PRICED THEIR OIL.

5. IN PARAGRAPH 7, ADD AT THE END OF THE SENTENCE "BUT THE SCALE OF THOSE RISES OBVIOUSLY AGGRAVATED THE TRENDS". WITHOUT A QUALIFICATION OF THIS SORT, WE FEAR THAT THE PRODUCERS COULD CLAIM THAT ALL ARGUMENTATION IN THE PREVIOUS PARAGRAPHS IS WITHOUT FOUNDATION.

6. ON PAGE 9, WE MIGHT ADD AFTER (III) A POINT (IV) AS FOLLOWS:-

"THE FIRST QUARTER OF 1975 WAS UNTYPICAL BECAUSE OF THE RUNNING-DOWN OF STOCKS".

7. AS REGARDS PARAGRAPH (D)(I) ON PAGE 10, WE SHOULD LIKE TO KNOW WHICH FIGURES ARE TO BE INSERTED HERE. PRESUMABLY THEY WILL NOT BE THOSE USED IN THE LONG TERM ENERGY ASSESSMENT.

8. IN PARAGRAPH (D)(II) ON PAGE 10, WE SUGGEST INSERTING BEFORE THE LAST SENTENCE A NEW SENTENCE AS FOLLOWS:-

"SOME OPEC COUNTRIES SEEM TO BE TAKING GREATER INTEREST IN STRICTER DEPLETION POLICIES."

9. PAGE 11, PARAGRAPH (III) SHOULD BE DELETED AND THE FOLLOWING SUBSTITUTED:-

"AVAILABILITY OF NON-OPEC OIL PRODUCTION" PRESENT INDICATIONS SHOW AS MUCH AS TO

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MILLION B/D NET ADDITIONAL OIL AVAILABLE IN THE FREE WORLD FROM PRESENTLY NON-OPEC SOURCES"

10. PAGE 11, PARAGRAPH (E) DEALS WITH A SENSITIVE ISSUE ON WHICH FURTHER WORK WILL OBVIOUSLY HAVE TO BE DONE. IF IT IS TRUE THAT DEMAND FOR OPEC OIL IS ACTUALLY GOING TO BE GREATER IN 1980 THAN AT PRESENT, OUR NEGOTIATING POSITION WILL BE CONSIDERABLY WEAKENED." I SUGGEST THAT WE DELETE THE PHRASE "WHICH IS GREATLY IN EXCESS OF OPEC'S PRESENT INSTALLED CAPACITY". I WOULD BE INTERESTED TO KNOW WHAT FIGURES ARE TO BE PUT IN THE

BLANK SPACES.

11. PAGE 12, PARAGRAPH (II): THE ARGUMENT IN THE SECOND AND THIRD SENTENCES IS NOT REALLY CREDIBLE, GIVEN THAT THE DEMAND FOR OIL IS RELATIVELY INELASTIC. THESE TWO SENTENCES SHOULD BE DELETED AND THE BEGINNING OF THE FOLLOWING SENTENCE REVISED TO READ "PRODUCERS SHOULD, IN THEIR OWN INTEREST, AVOID ATTEMPTS TO MAXIMIZE

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REVENUES...".

12. PARAGRAPH (III): THE REFERENCE TO "MAINTAINING" PRODUCERS RESERVE POSITIONS IS TOO EXPLICIT. DELETE THE WORDS "TO MAINTAIN" IN THE SEVENTH AND EIGHTH LINES, AND SUBSTITUTE "IN CONNECTION WITH".

13. PAGE 13, PARAGRAPH 2: FOR MUCH THE SAME REASON AS OUR OBJECTION TO PARAGRAPH (II) ON PAGE 12, WE DISLIKE THE LAST SENTENCE OF THIS PARAGRAPH. WE WOULD LIKE IT DELETED.

14. PARAGRAPH 3(A): THERE IS A DANGER, IN EXTENDING BACK THE TIME HORIZON TO 1958, THAT THE PRODUCERS MAY ARGUE IT SHOULD GO BACK TO 1948, WHEN THE FIGURES ARE TO THEIR ADVANTAGE. WE SHOULD BEWARE OF ARGUING ON THE BASIS OF ARBITRARY DATES: BUT IF WE DO SO, WE SHOULD KNOW THE COUNTER-ARGUMENTS.

15. PAGE 14, PARAGRAPH (C): "LINKAGE TO SDRS" IS NOT AN INDEX REFERENCE. IT IS A METHOD OF DENOMINATING OIL PRICES. IT SHOULD BE REMOVED FROM THE SECTION ALTOGETHER
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AND GIVEN A SEPARATE PLACE OF ITS OWN.

16. THE FOOTNOTE ON PAGE 14 SUGGESTS THAT DATA ON OPEC IMPORT PRICES SHOULD BE REFINED ON A COUNTRY BY COUNTRY BASIS. UNTIL SUCH TIME AS A FULL SECURITY SYSTEM HAS BEEN INSTALLED WITHIN THE AGENCY, WE WOULD NOT WISH THE SECRETARIAT TO EMBARK ON STUDIES OF THIS SENSITIVE ISSUE. SIMILARLY, I TRUST THAT THE QUESTIONS POSED ON INDEXATION IN PARAGRAPH (D) ARE RHETORICAL AND THAT THE SECRETARIAT WILL NOT ATTEMPT TO COLLECT THE SORT OF INFORMATION NECESSARY FOR PROVIDING THE ANSWERS.

17. ON PAGE 15, PARAGRAPH 4, 9TH LINE, INSERT AFTER "SUPPLY" THE WORDS "AGREED QUANTITIES OF". IN THE PENULTIMATE LINE DELETE "GUARANTEE PERFORMANCE OF" AND SUBSTITUTE "ENCOURAGE PRODUCERS TO ADOPT". THEN DELETE THE LAST THREE WORDS "BY THE SUPPLIERS".

18. ON PAGE 18, PARAGRAPH B1 DELETE IN THE THIRD LINE THE WORDS "SAFE AND PROFITABLE" AND SUBSTITUTE "APPROPRIATE".

19. PAGE 19, PARAGRAPH (D): WE DO NOT CARE MUCH FOR THE IMPLICATION HERE THAT THE CONSUMERS SHOULD ACCEPT RESPONSIBILITY FOR PROOFING PRODUCERS' INVESTMENT AGAINST SOME OF THE RISKS LISTED IN PARAGRAPH (C). IN THAT PARAGRAPH, WE SHOULD LIKE DELETION OF "INFLATION RISKS" AND "EXCHANGE RATE RISKS" AS WELL AS THE REFERENCE TO "TAILORED INVESTMENT VEHICLES" IN PARAGRAPH (D).

20. ON PAGE 20, THE FIRST TIRET AT THE TOP OF THE PAGE SHOULD BE DELETED. IMPLYING THAT PRODUCERS CANNOT MAKE THEIR OWN INVESTMENT DECISIONS IS PATRONIZING, AND UNACCEPTABLE TO THE MAJORITY OF THEM.

21. PAGE 21, PARAGRAPH D1: IT SEEMS LIKELY THAT CONSUMERS WILL ALSO HAVE TO MAKE SOME CAPITAL INPUT TO TRIANGULAR DEALS: THEREFORE INSERT "AND SOME CAPITAL" AFTER "TECHNOLOGY" IN THE SECOND TIRET.

22. PAGE 22, PARAGRAPH 2(B): STOCKPILING IS NOT OF COURSE A NEW IDEA. IT SHOULD BE MADE CLEAR HERE THAT THE SUBJECT IS ALREADY UNDER INTENSIVE STUDY IN ORGANIZATIONS IN WHICH THE CONSUMERS, PRODUCERS AND LDCS PARTICIPATE SUCH AS THE WORLD FOOD COUNCIL, GATT AND UNCTAD.

23. I HOPE YOU WILL FIND THE ABOVE COMMENTS USEFUL AND INSPIRING. I SHOULD BE HAPPY TO DISCUSS THEM WITH YOU IN GREATER DETAIL ONCE YOU HAVE HAD THE OPPORTUNITY OF

COMPARING THEM WITH ANY COMMENTS FROM OTHER DELEGATIONS.

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THEREAFTER, WE HOPE THAT A FINAL VERSION OF THIS PAPER
CAN BE QUICKLY PRODUCED AND CIRCULATED.

END TEXT

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